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♦ Monitoring Report of ♦

# American Red Cross Nashville Area Chapter

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Issued by



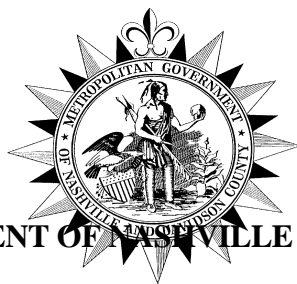
**Office of Support Services  
Division of Grants Monitoring**

Fred Adom, CPA  
Director

LaShawn Barber,  
Lead Auditor

August 5, 2002

BILL PURCELL  
MAYOR



## METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE  
OFFICE OF SUPPORT SERVICES  
DIVISION OF GRANTS MONITORING  
222 THIRD AVENUE NORTH, SUITE 650  
NASHVILLE, TENNESSEE 37201

August 5, 2002

Gary Wilson, Board Chair  
American Red Cross-Nashville Area Chapter  
2201 Charlotte Avenue  
Nashville, TN 37203

Dear Mr. Wilson:

Please find attached the Monitoring Report of the American Red Cross, Nashville Area Chapter. This report explains the results of our review of the grant contract with the Metropolitan Government of Nashville and Davidson County (Metro) for the fiscal year ending June 30, 2002. The Division of Grants Monitoring (DGM) is responsible for monitoring grant funds from Metro Government to any nonprofit organization that receives grant appropriations. Staff from our office conducted the on-site review on June 21, 2002.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at 615-862-6170.

Sincerely,

Fred Adom  
Director

cc: Tony Higginbotham, Executive Director  
Evelyn Acosta, Chief Financial Officer  
David Manning, Director of Finance  
Nancy Whittemore, Assistant Director of Finance  
Joe Holzmer, Division of Accounts  
Kim McDoniel, Internal Audit  
LaShawn Barber, Division of Grants Monitoring

**MONITORING REPORT  
FOR  
AMERICAN RED CROSS-NASHVILLE AREA CHAPTER**

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## OBJECTIVES, SCOPE AND METHODOLOGY

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The Division of Grants Monitoring (hereinafter “DGM”) within the Metropolitan Government of Nashville and Davidson County (hereinafter “Metro”) with the responsibility for monitoring the grant awards to all nonprofit organizations that receive an appropriation from Metro. DGM is also responsible for monitoring the federal and state grants to the various departments within the Metro Government.

A monitoring review, which is substantially less in scope than an audit, does not involve an audit of the agency’s financial statements. As such, DGM does not express an opinion or any assurance regarding the financial statements of the American Red Cross. The monitoring review process determines an entity’s compliance with the requirements of Federal, State, and Local government programs, adherence to applicable laws and regulations, and measures progress toward expected results and outcomes. It is the responsibility of the DGM to review each grant recipient to ensure adherence to the specific intents, restrictions, and requirements of the Metro Council.

The Red Cross is a national organization that engages in humanitarian relief efforts. The organization provides food, clothing, shelter, and financial resources to the victims of disasters, natural and man-made, including fires, weather-related disasters, earthquakes, and acts of war. On September 11, 2001, the United States suffered three attacks on the World Trade Center in New York City and the Pentagon in Washington D.C. In response to these attacks, the Red Cross provided meals, mental health services, and health services for victims and relief workers and financial assistance to families who lost loved ones, those seriously injured in the attacks, and to others who lost homes, jobs, or livelihood.

We have completed our monitoring review of the grant to the Nashville Area Chapter of the American Red Cross (hereinafter “Red Cross”) for the year ended June 30, 2002. The specific objectives for this review were:

- 1) To determine whether the agency has the resources and capacity to administer the grant funds
- 2) To determine if costs and services are allowable and eligible
- 3) To determine whether program objectives are being met
- 4) To determine contractual compliance

The scope of our review included only the Metro contract with the Red Cross, contract #L-357, for \$15,000. The period of review was consistent with the grant period, per the contract, October 2, 2001 through October 1, 2002.

The DGM conducts its reviews in accordance with the generally accepted auditing standards. Our review covered all of the core areas compliance areas identified by OMB Circular 133 Audits of States, Local Governments, and Non-Profit Organizations. To perform a monitoring review, the DGM generally conducts site visits, reviewing the necessary documentation and interviewing key staff of the agency. Specifically for our review of the Red Cross, the DGM obtained an understanding of and documentation for the use of the \$15,000 grant funds.

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## RESULTS OF MONITORING

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The results of the monitoring review for the American Red Cross, Nashville Chapter are provided in this section. The results are based on tests performed and include conclusions regarding the specific review objectives and, if applicable, recommendations for improvement and an action plan for implementing the conclusions.

### **1. Possess necessary resources and capacity to administer the grant funds**

Our review of the agency's accounting system, the qualification of the individuals assigned to manage the accounting records, and other available resources, indicates that the Red Cross possesses the necessary resources and expertise to administer the grants funds. The staff at Red Cross has several years of accounting experience. The agency follows the state of Tennessee's accounting policies and uses System II--Accounting Systems software. The agency is one over 1,000 United States chapters in a national organization that ensures its internal control structure through internal auditors, independent external auditors, and an independent Audit Committee.

### **2. Allowable and eligible costs and services**

The contract between Metro and Red Cross is for disaster relief efforts relating to the September 11, 2001 terrorist attack on the United States. After the terrorist attacks, the American Red Cross established the Liberty Fund on a national level for the donations and contributions provided by the public and by corporations. Each chapter of the Red Cross that received donations or contributions for this purpose were instructed to transfer the funds to the national Liberty Fund to allow for a single source of funding for relief efforts. The DGM reviewed documentation of the transfer of the Metro funds to the local chapter's bank account and subsequent transfer to the national headquarters, i.e. Liberty Fund. Based on our review of this documentation, it appears the transfer of the funds was allowable were used for the intended purposes. The use of the funds does not violate the terms and conditions of OMB Circular 122, Cost Principles for Non Profit Organizations nor is the funds' use in violation of any Federal, State, or local laws and regulations.

The Metro contract does not require separate accounting for Metro grant funds to prohibit commingling of with other sources of funding. Our review of the chapter's general ledger indicated that the Metro funds were not maintained separate from other chapter funds, however the supporting documentation for the financial transactions indicates the source of the funding as Metro. The DGM also notes that the purpose of the funding, if for the Liberty Fund, is also indicated on the supporting documentation. **Subsequently, the DGM was able to properly identify and account for the individual expenditure and transfer to the Liberty Fund, involving the Metro dollars.**

### **3. Program objectives being met**

As state previously, the contract between Metro and Red Cross was specifically for the relief efforts relating to the September 11, 2001 terrorist attacks. The grant period, per the contract was for October 2, 2001 through October 1, 2002. Based on a review of the chapter's financial transactions regarding the Metro funds, it appears that the objective has been met. All Metro funds were received and properly transferred to the national Liberty Fund by December 2001.

### **4. Contractual compliance**

Based on our review, as described in #2 and #3 above, it appears the Red Cross complied with the primary requirements of the grant. The DGM determined that Metro funds were used for the contract's intended purposes, but could not test for reporting requirements. The DGM noted that the Red Cross did not provide to Metro Government any monthly or quarterly reporting for the use of the funds or the program outcome. The contract only specifically requested an audited financial statement performed by a certified public accounting firm and invoices. The financial statement, according to the contract was to be provided no

## **RESULTS OF MONITORING**

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later than three (3) months after termination of the grant. Since the grant period has not yet expired, the DGM could not hold the Red Cross accountable for this requirement. The contract also states that payment would be “made only after receipt of invoices and any supporting information as may be requested.” The DGM verified that no invoices were submitted or requested, as the \$15,000 was disbursed in a lump sum in October 2001; therefore, the DGM could not hold the Red Cross accountable for submission of invoices. Since the contract did not require financial or programmatic reporting, the Red Cross did not violate the contract, however the DGM will include a general recommendation regarding reporting requirements for nonprofit grant recipients.

## **RECOMMENDATIONS**

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- 1) Metropolitan Government of Nashville and Davidson County should develop a Grants Manual that outlines the minimum expectations and requirements of all nonprofit recipients of Metro appropriations. This manual should be comprehensive and address, at a minimum, allowable and unallowable costs and cost principles, reporting requirements, and monitoring guidelines.
- 2) Metropolitan Government of Nashville and Davidson County should revisit and revise the contract provisions for nonprofit organizations. The contract should include, at a minimum, the following:
  - a) Expected program goals and outcomes;
  - b) Specific financial and programmatic reporting requirements, which include report format, reporting frequency, and type of allowable costs or program information;
  - c) Reference to compliance requirements to which nonprofits are subject.
- 3) Metropolitan Government of Nashville and Davidson County should revisit the methodology for disbursement of grant funds to nonprofit grant recipients. At a minimum, the procedure(s) for requesting grant funds, whether by advance or reimbursement basis, should:
  - a) Include a standard invoice/reimbursement request format;
  - b) Include the required frequency for requests;
  - c) Include provisions for use of advanced funds, including expenditure reporting, supporting documentation requirements, and recordkeeping.